

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Rochester Hills Public Library	County Oakland
Fiscal Year End December 31, 2006	Opinion Date March 12, 2007	Date Audit Report Submitted to State 4/7/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

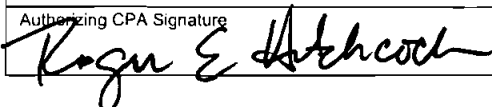
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik		Telephone Number 248-340-6050	
Street Address 3201 University Drive Suite 350		City Auburn Hills	State MI
		Zip 48326	
Authorizing CPA Signature 		Printed Name Roger E. Hitchcock	License Number 1101014461

Audited Basic Financial Statements

Rochester Hills Public Library

Year Ended December 31, 2006
With Report of Independent Auditors

Rochester Hills Public Library
Audited Basic Financial Statements
Year Ended December 31, 2006

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

The Board of Trustees
Rochester Hills Public Library
Rochester, Michigan 48307

We have audited the basic financial statements of the Rochester Hills Public Library (the Library) as of and for the year ended December 31, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Rochester Hills Public Library as of December 31, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Rochester Hills Public Library. The information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
March 12, 2007

Rochester Hills Public Library

Governmental Fund Balance Sheet / Statement of Net Assets

December 31, 2006

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 1,046,066	\$ -	\$ 1,046,066
Investments - current	320,654	-	320,654
Investments - noncurrent	2,236,781	-	2,236,781
Other assets	38,851	-	38,851
Taxes receivable	2,404,519	-	2,404,519
Fixed assets	-	11,831,058	11,831,058
Total assets	<u>\$ 6,046,871</u>	<u>11,831,058</u>	<u>17,877,929</u>
Liabilities:			
Trade accounts payable	\$ 39,354	-	39,354
Deferred revenue	3,260,871	-	3,260,871
Accrued liabilities	99,003	-	99,003
Accumulated employee benefits-Due within one year		113,915	113,915
Accumulated employee benefits-Due in more than one year	-	73,813	73,813
Total liabilities	<u>3,399,228</u>	<u>187,728</u>	<u>3,586,956</u>
Fund Balances and Net Assets:			
Reserved for donor-restricted purposes	5,240	(5,240)	-
Unreserved:			
Designated for self-insurance plan	50,000	(50,000)	-
Designated for equipment purchases	800,000	(800,000)	-
Designated for capital improvements	930,000	(930,000)	-
Undesignated	<u>862,403</u>	<u>(862,403)</u>	<u>-</u>
Total fund balances	<u>2,647,643</u>	<u>(2,647,643)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 6,046,871</u>		
Net Assets:			
Invested in capital assets, net of related debt		11,831,058	11,831,058
Restricted for donor-restricted purpose		5,240	5,240
Unrestricted		<u>2,454,675</u>	<u>2,454,675</u>
Total net assets		<u>\$ 14,290,973</u>	<u>\$ 14,290,973</u>

Rochester Hills Public Library

Statement of General Fund Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities

Year ended December 31, 2006

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:			
Property taxes	\$ 2,652,356	\$ -	\$ 2,652,356
Service contracts	1,229,854	-	1,229,854
State aid	30,067	-	30,067
Fines and fees	327,506	-	327,506
Investment income	184,057	-	184,057
Grants	3,250	-	3,250
Gifts	146,750	-	146,750
Gain (loss) on sale of assets	-	(10,144)	(10,144)
Miscellaneous	27,599	(12,046)	15,553
Total revenues	4,601,439	(22,190)	4,579,249
Expenditures:			
Personnel	3,087,133	25,945	3,113,078
Library materials	676,264	(654,999)	21,265
Facilities and equipment	865,840	(212,851)	652,989
Professional and contractual services	216,510	-	216,510
Library programs	40,139	-	40,139
Other operating expenditures	235,359	-	235,359
Depreciation	-	874,399	874,399
Total expenditures	5,121,245	32,494	5,153,739
Excess (deficiency) of revenues over expenditures and change in net assets	(519,806)	(54,684)	(574,490)
Fund balance/net assets - beginning of year (restated)	3,167,449	11,698,014	14,865,463
Fund balance/net assets - end of year	\$ 2,647,643	\$ 11,643,330	\$ 14,290,973

Rochester Hills Public Library

Notes to the Basic Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies

Introduction

The Rochester Hills Public Library (the Library) complies with accounting principles generally accepted in the United States of America as applicable to governmental units. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

The significant accounting policies utilized by the Library are described below.

Financial Reporting Entity

The Rochester Hills Public Library (the Library) was formed under Public Act 164 of 1877. The Library functions as a separate financial operating entity from the City of Rochester Hills and is governed by a six-member board of trustees. The Library provides various services to the residents of Rochester, Rochester Hills and Oakland Township.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity*.

Based upon the application of the criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's General Fund).

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components: invested in capital assets net of related debt; restricted net assets for donor-restricted purposes; and unrestricted net assets.

Fund Financial Statements

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest and special assessments are susceptible to accrual. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

The Library reports the following major governmental fund:

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.

1. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2006 ad valorem tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations. The Library's 2007 ad valorem tax is levied and collectible on December 1, 2006, but will not be recognized as revenue until 2007. As of December 31, 2006, the billings relating to the 2006 levy are recorded as deferred revenue.

The 2005 taxable valuation of the City of Rochester Hills totaled \$3.402 billion, on which ad valorem taxes levied consisted of 0.7895 mills for operating purposes. This resulted in approximately \$2.65 million for operations.

Service Contract Revenue

The Library also services the City of Rochester and Oakland Township under separate operating agreements. The fee for this service is produced by each municipality levying one mill, annually adjusted for the Headlee Amendment.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

Investments

Investments are carried at fair value, based on quoted market prices.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to the future fiscal year and are recorded as prepaid items under other assets in both government-wide and fund financial statements.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Capital Assets

The board adopted a new capitalization policy for 2006. Capital assets are defined by the Library as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. (Assets in prior years were capitalized with an initial cost of more than \$500.) Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	5-8 years
Library equipment	5-10 years
Bookmobile	10 years
Library materials	4 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the fiscal year, all deferred revenue of the Library was unearned, relating entirely to property taxes and service contract revenue.

Compensated Absences

It is the Library's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. Employees are paid their accumulated vacation and sick pay upon termination of employment. Accruals for these liabilities are recorded as earned by employees and reported in the government-wide financial statements.

Income Taxes

The Library is a governmental sub-unit organization and as such is not subject to federal income tax.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Fund Equity

In the fund financial statements, the unreserved fund balances represent the amount available for budgeting future operations. Designations of unreserved fund balances in governmental funds indicate tentative plans for use of financial resources in a future period.

Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the basic financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Cash and Cash Equivalent Deposits – Custodial Credit Risk

Cash deposits and investments (certificates of deposit with maturities less than 90 days) are carried at cost. Cash deposits and certificates of deposit of the Library are in the name of the Library at various banks and investment companies.

At December 31, 2006, the Library had eight depository accounts. The Library does not have a deposit policy. The book value of the Library's bank deposits, consisting of three non-interest-bearing checking accounts was \$315,661, four interest-bearing savings accounts was \$385,302 and one money fund held by a broker was \$41,839. Of the bank balance, \$482,605 was covered by Federal Depository Insurance, and \$272,958 was uninsured and uncollateralized; therefore, subjecting the Library to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk; however, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 482,605
Uninsured and uncollateralized	<u>272,958</u>
Total	<u>\$ 755,563</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

3. Investments

At December 31, 2006, the Library had the following investments and maturities:

	Fair Market Value	Investment Maturities (in years)			
		Less than 1	1 –5	6 - 10	More than 10
Deposits:					
Certificates of deposit	\$ 722,954	\$ 532,194	\$ 190,760	\$ -	\$ -
Investments:					
U.S. Government securities	2,046,021	-	1,672,893	373,128	-
Mutual funds	89,985	89,985	-	-	-
Total investments	2,858,960	\$ 622,179	\$1,863,653	\$ 373,128	\$ -
Less investments reported as “cash and cash equivalents” on the Statement of Net Assets	301,525				
Total investments	<u>\$ 2,557,435</u>				
As reported on the Statement of Net Assets					
Current investments	\$ 320,654				
Noncurrent investments	2,236,781				
Total investments	<u>\$ 2,557,435</u>				

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library’s investment policy does not specifically address interest rate risk. The Library’s policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library’s investments are limited by those authorized under Public Act 20 of 1943 (as amended) for custodial credit risk. The Library also has the following investment policies further limiting its investment choices:

- All financial institutions used as a depository by the Library must have its principal office or branch in Michigan.
- Corporate bonds shall not exceed 20% of the total portfolio investment. In addition, corporate bonds are required to have the highest rating.
- The brokerage firm is only allowed to invest up to \$95,000 per institution.

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

As of December 31, 2006, the credit quality rating of the U.S. Government securities and U.S. Agency securities with a fair value of \$2,046,021 was AAA by Standard and Poors. The mutual funds were unrated. Certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds, U. S. Governmental securities and U.S. Agency securities are not exposed to custodial credit risk. The Library's certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories; the brokerage firm is only allowed to invest up to \$95,000 per institution.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices; no more than 20% of the total investment portfolio is invested in corporate bonds. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 01/01/06	Additions	Disposals	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Capital assets being depreciated:				
Building and improvements	10,173,772	-	-	10,173,772
Furniture and fixtures	256,770	9,856	(7,860)	258,766
Library equipment	1,148,207	202,995	(271,971)	1,079,231
Bookmobile	205,847	-	-	205,847
Library materials	4,401,434	654,999	(245,207)	4,811,226
Total	16,186,030	867,850	(525,038)	16,528,842
Accumulated depreciation (restated)	(7,326,243)	(874,399)	502,858	(7,697,784)
Net capital assets being depreciated	8,859,787	(6,549)	(22,180)	8,831,058
Net capital assets	\$ 11,859,787	\$ (6,549)	\$ (22,180)	\$11,831,058

Depreciation expense was \$874,399 for the year ended December 31, 2006.

On August 15, 1990, the Library and the Rochester Downtown Development Authority (the Authority) came to an agreement by which the Authority consented to give the Library \$2,500,000 for the purpose of helping the Library to acquire the land on which the Library is located. Under this agreement, if at any point in the thirty years following the date of the agreement this land should be sold, then the Library will give back to the Authority, its pro rata share of the appraised value of the land only. The Authority's share of the appraised value has been established as 83.3%. At the current time, the Library has no intention of selling its present facility.

5. Long-term Debt

Long-term debt obligation can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accumulated employee benefits	\$ 161,783	\$ 25,945	\$ -	\$ 187,728	\$ 113,915

The accumulated employee benefits represent the estimated liability to be paid to employees under the Library's sick and vacation pay policy. Under the Library's policy, employees earn sick and vacation time based on time of service with the Library.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

6. Assets Held at Community Foundation

There is one endowment fund administered by the Community Foundation of Greater Rochester (CFGR) for the benefit of the Library. The CFGR is a public charity that is funded through donations by a large number of contributors. Although the Library does not control the funds at the CFGR, by agreement, the purpose of the funds is to provide support and furtherance of specific programs and activities of the Rochester Hills Public Library. Accordingly, the Library has not recorded these funds in this financial report. Revenue is recorded when distributions are received from the CFGR.

A summary of changes in assets held at the CFGR is as follows:

Balance - January 1, 2006	\$ 179,194
Contributions	3,110
Distributions	(2,968)
Investment earnings	18,559
Balance - December 31, 2006	<u>\$ 197,895</u>

7. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. This budget is developed by the Library Director and approved by the Library Board as are any amendments to the budget. All appropriations lapse at fiscal year end. The Library does not maintain a formalized encumbrance accounting system. The amount of encumbrances outstanding at December 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, Library managers submit budgetary requests for the next fiscal year. The Library director obtains income information from the City of Rochester Hills and verifies this information with the City treasurer's office.
2. The Library Director presents a draft budget to the Library Board's Finance Committee in June.
3. The proposed budget is presented to the full Board for discussion in July.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

7. Stewardship, Compliance and Accountability (continued)

4. A public hearing is advertised at least ten days before the hearing, which is held in August. The Board adopts a total budget figure in August by passing a budget resolution. The Library director is authorized to transfer budgeted amounts within budgetary activities. However, any revisions that alter the total expenditures of any budgetary activity must be approved by the Library Board.
5. The Library Director forwards a copy of the budget resolution to the City of Rochester Hills.

Excess Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line-item basis.

During the year ended December 31, 2006, the Library incurred expenditures in excess of the amounts appropriated as follows:

Budget Item	Budget Appropriation	Actual Expenditures	Variance
General Fund			
Library materials	\$ 664,500	\$ 676,264	\$ 11,764
Professional and contractual services	100,000	216,510	116,510
Other operating expenditures	196,000	235,359	39,359

8. Designated and Undesignated Donations

The Library receives donations from the general public that are both designated and undesignated. The undesignated donations are recorded as General Fund revenue as received and expended by the Library as needed. Designated donations are recorded as General Fund revenue as received and spent in a manner consistent with the donors' restrictions. Due to timing differences, it is not always possible to spend these designated donations in the same year they were received. As of December 31, 2006, the Library had unspent designations in the amount of \$5,240.

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

9. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library carries commercial insurance for risks to cover these losses. The Library also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

10. Defined Contribution Retirement Plan

The Library provides pension benefits through a money purchase plan, created in accordance with IRC Section 401(a), to all of its salaried employees who have worked in excess of one year. As established by the plan, the Library contributes 10% of gross earnings, which resulted in \$177,629 in 2006. Participants may also make voluntary contributions limited to 100 percent of their annual contribution or \$44,000.

11. Prior Period Adjustments

Certain errors, resulting in the overstatement of previously reported deferred revenue and accumulated depreciation for December 31, 2005, were corrected this year, resulting in the following changes to fund balance and net assets as follows:

Fund balance at December 31, 2005 (as previously stated)	\$ 3,006,696
Overstated deferred revenue	160,753
Fund balance at December 31, 2005 (as restated)	<u>\$ 3,167,449</u>
Net assets at December 31, 2005 (as previously stated)	\$ 14,396,991
Overstated deferred revenue	160,753
Overstated accumulated depreciation	307,719
Net assets at December 31, 2005 (as restated)	<u>\$ 14,865,463</u>

Rochester Hills Public Library

Notes to the Basic Financial Statements (continued)

12. Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 2,647,643
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	11,831,058
Compensated absences are included as a liability	(187,728)
Net Assets of General Fund-Full Accrual Basis	<u>\$ 14,290,973</u>
 Net Change in Fund Balance – Modified Accrual Basis	 \$ (519,806)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenue, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	867,850
Depreciation	(874,399)
Loss on disposal of capital assets is not recorded in the fund statements	(10,144)
Proceeds on sale of fixed assets	(12,046)
Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	<u>(25,945)</u>
Change in Net Assets of General Fund-Full Accrual Basis	<u>\$ (574,490)</u>

Required Supplemental Information

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2006

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 2,664,600	\$ 2,664,600	\$ 2,652,356	\$ (12,244)
Service contracts:				
City of Rochester	482,300	482,300	498,503	16,203
Oakland Township	721,800	721,800	731,351	9,551
Total service contracts	1,204,100	1,204,100	1,229,854	25,754
State aid	36,900	36,900	30,067	(6,833)
Fines and fees:				
Penal fines	120,000	120,000	144,477	24,477
Fines and fees	160,000	160,000	183,029	23,029
Total fines and fees	280,000	280,000	327,506	47,506
Investment income	100,000	100,000	184,057	84,057
Grants	-	-	3,250	3,250
Gifts				
Designated gifts - General	5,000	5,000	2,427	(2,573)
Designated gifts - Friends	150,000	150,000	112,748	(37,252)
Undesignated gifts - General	25,000	25,000	31,575	6,575
Total gifts	180,000	180,000	146,750	(33,250)
Miscellaneous	15,000	15,000	27,599	12,599
Total revenues	4,480,600	4,480,600	4,601,439	120,839

Rochester Hills Public Library

Budgetary Comparison Schedule

Year Ended December 31, 2006

	General Fund			
	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Expenditures:				
Personnel:				
Salaries and wages	\$ 2,411,900	\$ 2,411,900	\$ 2,454,973	\$ (43,073)
Employee benefits	684,300	684,300	632,160	52,140
Total personnel	3,096,200	3,096,200	3,087,133	9,067
Library materials:				
Books	463,000	463,000	453,529	9,471
Print subscription and electronic materials	95,000	95,000	86,776	8,224
Audiovisual	106,500	106,500	135,959	(29,459)
Total library materials	664,500	664,500	676,264	(11,764)
Facilities and equipment:				
Equipment and capital improvements	400,000	400,000	326,794	73,206
Equipment maintenance	66,000	66,000	41,228	24,772
Facilities maintenance	165,000	165,000	221,401	(56,401)
Bookmobile	20,000	20,000	15,432	4,568
Telephone	24,000	24,000	50,509	(26,509)
Utilities	217,000	217,000	192,262	24,738
Insurance	26,000	26,000	18,214	7,786
Total facilities and equipment	918,000	918,000	865,840	52,160
Professional and contractual services	100,000	100,000	216,510	(116,510)
Library programs	45,000	45,000	40,139	4,861
Other operating expenditures:				
Promotion and printing	70,000	70,000	71,379	(1,379)
Staff development	25,000	25,000	37,362	(12,362)
Supplies	32,000	32,000	67,497	(35,497)
Mileage	8,000	8,000	7,361	639
Computer software	25,000	25,000	2,909	22,091
Miscellaneous	36,000	36,000	48,851	(12,851)
Total other operating expenditures	196,000	196,000	235,359	(39,359)
Total expenditures	5,019,700	5,019,700	5,121,245	(101,545)
Excess (deficiency) of revenues over expenditures	(539,100)	(539,100)	(519,806)	19,294
Fund balance - beginning of year (restated)	3,167,449	3,167,449	3,167,449	-
Fund balance - end of year	<u>\$ 2,628,349</u>	<u>\$ 2,628,349</u>	<u>\$ 2,647,643</u>	<u>\$ 19,294</u>

ROCHESTER HILLS PUBLIC LIBRARY
REPORT TO THE BOARD OF TRUSTEES

March 12, 2007

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

The Board of Trustees
Rochester Hills Public Library
500 Olde Towne Road
Rochester, Michigan 48307

In planning and performing our audit of the financial statements of Rochester Hills Public Library as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Rochester Hills Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed within this letter, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

This communication is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
March 12, 2007

Rochester Hills Public Library
December 31, 2006

Material Weaknesses:

During our auditing procedures we noted the Library's accumulated depreciation was not calculated correctly as of December 31, 2005. The corrections made to the depreciation schedules determined that the prior year's accumulated depreciation was overstated in the amount of \$307,719 causing a prior period adjustment. We recommend that the Library update the fixed asset and accumulated depreciation schedules on a regular basis.

During our audit procedures we noted that deferred revenue was overstated as of December 31, 2005. This overstatement occurred as a result of the Library recording deferred revenue on a cash payment not received as of December 31, 2005 related to a service contract with the City of Rochester that covered part of 2006. This caused an overstatement of deferred revenue in the amount of \$160,753 causing a prior period adjustment. We recommend that the Library properly record deferred revenue related to payments received as of the end of the year.

Other comments:

We noted that the Library did not amend the budget after August 2006. As a result, total expenditures were in excess of the budgeted amounts. Appropriations in excess of the final amended budget are a violation of the Uniform Accounting and budgeting Act. The budget should be reviewed continuously and the proper amendments should be made as necessary prior to incurring expenditures.

During our testing of disbursements we noted a mileage reimbursement was approved by the individual submitting the reimbursement request and not by a department supervisor. This related to check number 27819 on April 12, 2006 in the amount of \$32.93. We recommend that all reimbursements be approved by the appropriate department supervisor.